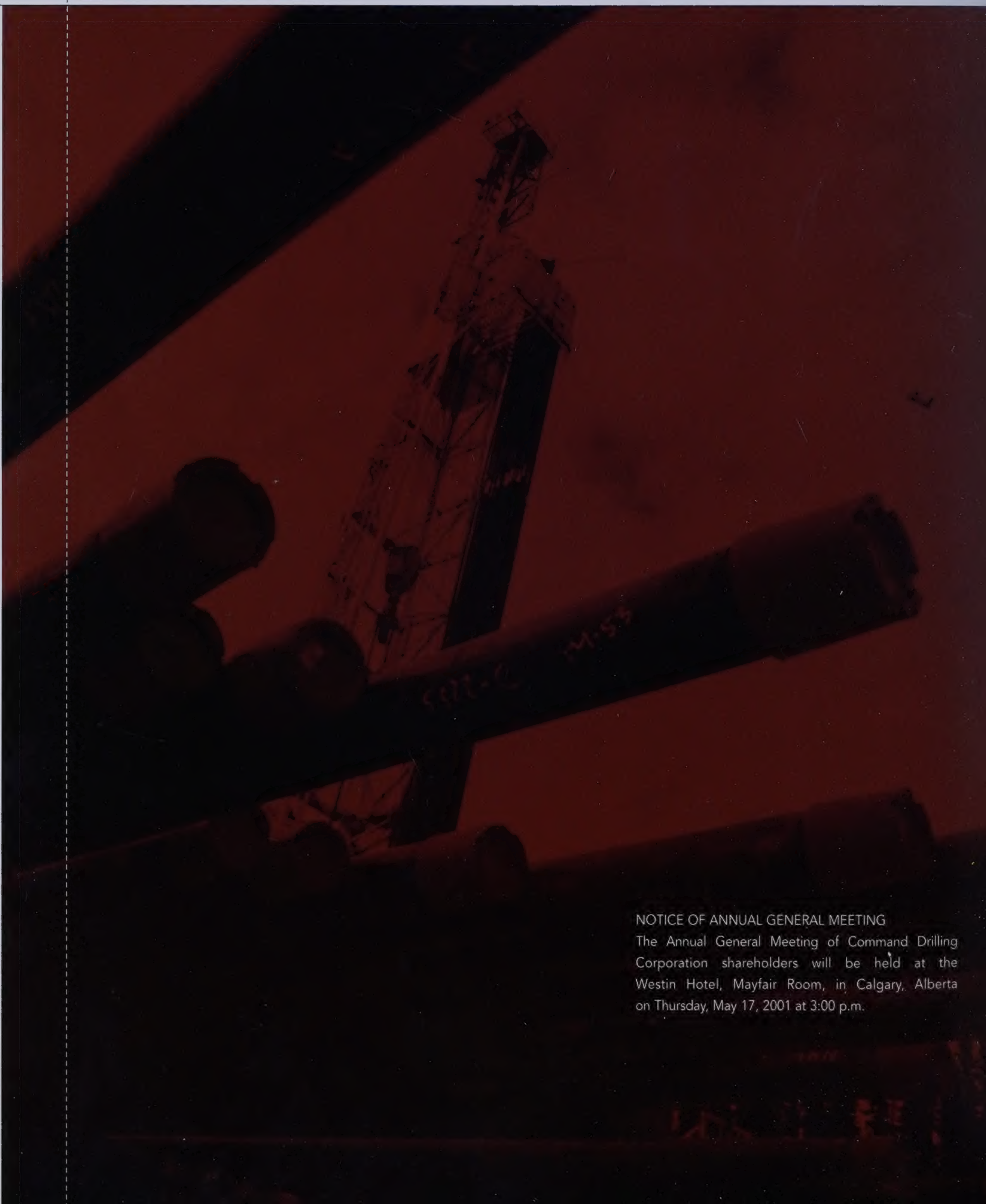
ANNUAL REPORT 2000

MAINTAINING THE FOCUS

COMMAND DRILLING CORPORATION

COMMAND DRILLING CORPORATION



NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of Command Drilling Corporation shareholders will be held at the Westin Hotel, Mayfair Room, in Calgary, Alberta on Thursday, May 17, 2001 at 3:00 p.m.

CORPORATE PROFILE

Command Drilling Corporation is a Calgary-based drilling company that has operated in the western Canadian oil patch since the early 1980s. Since that time, Command has built a reputation for operational excellence based on sound, focused management; experienced, long-term employees; and modern, well-maintained equipment. The Company's efforts have led to the development of strong, long-term relationships with well-respected operators and above average rig utilization rates.

The Command fleet currently comprises 14 drilling rigs of which, six are doubles with depth capacities ranging from 2,400 metres (7,875 feet) to 2,800 metres (9,185 feet) and eight are triples with depth capacities ranging from 3,000 metres (9,850 feet) to 4,000 metres (13,125 feet).

Six of the eight triples are diesel electric. Command's deeper capacity rigs allow the Company to compete successfully for projects involving deeper, more technically challenging targets, a market that is growing rapidly as demand for oil and natural gas increases. As well as drilling expertise, Command also has substantial experience in rig construction and is currently building a 6,000-metre cantilever triple for delivery in the fall of 2001. The Company currently employs more than 270 people.

Command went public on June 5, 2000 and its common shares trade on the Toronto Stock Exchange under the symbol CDZ.

FOCUS ON 2000

		Seven Months Ended December 31,2000
Financial Information		
Revenue	$	30,056,000
EBITDA	$	11,125,000
Net Earnings	$	6,336,000
per share – basic and diluted		$ 0.30
Funds from operations	$	7,415,000
per share – basic and diluted		$ 0.35
Capital Expenditures	$	10,585,000
Long-term Debt, net	$	16,336,000
Shareholders' Equity	$	40,657,000
Weighted Average Shares Outstanding		
basic		20,802,100
diluted		20,946,453
Shares Outstanding at Period End		
common shares		20,982,100
warrants		8,781,000
Operational Information		
Number of Operating Days		1,975
Revenue per Operating Day	$	15,200
Utilization Rate		74%

FOCUS

1980

Command Drilling is founded by Robert S. Bruce, Carl Kupper, Barr-East Investments Inc., Rob Wagemakers and Derek Lowe

Rigs 1 and 2, both 2,400-metre telescopic doubles are built in Calgary

1983

Three additional rigs: Rig 3, a 2,400-metre telescopic double and Rigs 4 and 5, both 1,600-metre telescopic doubles are built and added to the fleet

1985

Rigs 6 and 7, both 1,600-metre telescopic doubles are built in Calgary

1990

Rigs 4, 5, 6 and 7 are sold to investors for drilling in Russia

1992

Rig 4 is replaced with a 3,000-metre cantilever triple, Command's first triple, purchased and rebuilt in Edmonton

1993

Rig 5 is replaced with a 2,800-metre cantilever double built in Calgary

ON EXPERIENCE

1994

Rig 6 is replaced with a 2,600-metre cantilever double built in Calgary

1995

Rig 7 is replaced with a 3,600-metre diesel-electric cantilever triple, Command's first diesel-electric rig, built in Calgary

1997

Command wins the CAODC President's Shield for most improved safety record in its class

Rig 8E, a 4,000-metre diesel-electric cantilever triple is built in Calgary

Rig 9, a 3,000-metre cantilever triple is built in Calgary

Rig 10, a 3,600-metre cantilever triple is built in Calgary

1998

Command wins the CAODC President's Shield for the most improved safety record in its class for a second consecutive year

Rig 11, a 2,600-metre cantilever double is built in Calgary

Rigs 1, 2, 3 and 4 undergo major reconstruction and up-grades

Rig 9 is lost in a blowout and rig fire

1999

Command wins CAODC Award of Excellence for the best safety record in its class

Rig 9 is replaced with a 4,000-metre diesel-electric cantilever triple built in Calgary

Rig 12E, a 4,000-metre diesel-electric cantilever triple is built in Calgary

2000

Command Drilling becomes a publicly traded company, listed on the Toronto Stock Exchange as Command Drilling Corporation

Rig 14E, a 4,000-metre diesel-electric cantilever triple is built in Calgary

Rigs 1, 4, 5 and 6 are each refitted with new triplex pumps

2001

Rig 15E, a 4,000-metre diesel-electric cantilever triple is built in Calgary

Rig 16E, a 6,000-metre diesel-electric cantilever triple is built in Calgary with completion expected in the fall

Photograph by Robert J. Couture

Robert S. Bruce, President and CEO

LETTER TO THE SHAREHOLDERS

MAINTAINING OUR FOCUS

Command Drilling Corporation is pleased to present its first annual report on its financial and operating results for the seven months ended December 31, 2000. Although this is our first annual report, Command is not a new company but one with a successful 20-year history of operating as a privately owned drilling firm. During those 20 years of serving clients in the oil and gas industry throughout western Canada, we developed a knowledgeable management team and experienced crews. We focused on developing an expertise in rig construction which helped us build a modern, well-maintained fleet of rigs. We focused on quality work and developed a strong and loyal customer base which has resulted in Command enjoying utilization rates consistently higher than the industry average.

Going public hasn't changed this. The Management team that made Command a success as a privately owned company will continue to ensure its success as a public company. Command plans to maintain the focus and operating philosophy that made it a success – seeking experienced people, building reliable equipment and providing superior results.

COMMAND AS A PUBLIC COMPANY

The primary reason any private company goes public is to access capital markets. As a private company, Command was limited to funding operations and growth initiatives through internal cash flow and debt financing. As a public company, Command is now able to access capital markets to fund construction of new rigs and acquisition opportunities.

While this means the Company has new owners and the responsibility for increasing shareholder value, and is subject to more stringent disclosure requirements, it also means that Command has the financial means to accelerate growth.

YEAR IN REVIEW – INDUSTRY CONDITIONS

The past year was marked by increased oilfield services activity levels as commodity prices continued to rebound from the near record lows of 1998 and early 1999. The WTI benchmark crude oil averaged US$30.28 for the year, an increase of 56% from US$19.30 in 1999. Canadian oil prices averaged $44.29 for light sweet crude, an increase of 60% from $27.61 in 1999. However, the most dramatic improvement was seen in natural gas prices. Canadian spot prices averaged $5.10 per gigajoule at the AECO Hub, an 82.7% increase from $2.79 in 1999.

The resurgence in commodity prices created increased demand for oil and gas exploration and development. During 2000, a record 16,507 wells comprising 17.7 million metres were drilled in the Western Canadian Sedimentary Basin. This represents a 56% increase over the 10,595 wells completed in 1999 and a slight increase over the 16,484 wells drilled in 1997, the previous record year.

As a consequence of the dramatic rise in natural gas prices, a record 8,929 gas wells were drilled in 2000, or 54% of the total, compared with 6,296 or 59% in 1999. One of the hottest plays in 2000 was the deep foothills gas play, for which Command's deeper rigs are ideally suited.

YEAR IN REVIEW – COMMAND

On June 2, Command completed its initial public offering of 15,525,000 units at a price of $2.00 per unit for total proceeds of $31,050,000. Each unit consisted of one common share and one-half of one common share purchase warrant. One whole common share purchase warrant entitles the holder to purchase one common share at a price of $2.50. The warrants expire June 29, 2001. Proceeds from the offering were used, in combination with debt financing, to purchase all of the shares of Command Drilling Inc. and certain assets of Partner Rentals Ltd., both of which were private companies. Command Drilling Corporation began trading on the Toronto Stock Exchange on June 5, 2000.

For the seven months ended December 31, 2000 Command Drilling Corporation had net earnings of $6.3 million on revenue of $30.1 million. Cash flow from operations for the seven months amounted to $7.4 million.

Command had 1,975 operating days during the seven months ended December 31, 2000, resulting in a utilization rate of 74% compared to the industry average of 55%. The Company also commissioned a new 4,000-metre, diesel-electric triple, Rig 14E in September.

FOCUS ON THE FUTURE

There remains strong demand for natural gas. Current exploration success and development activities are only just keeping pace with decline rates of producing natural gas reservoirs in western Canada. Consequently, there is an optimistic forecast for natural gas related drilling activity.

While oil prices have leveled off somewhat from the increases experienced over the past 18 months, current demand and OPEC strategy support a WTI average on the order of US$25.00 per barrel. Overall, there will be considerable demand for oil and gas services in general, and a positive outlook for drilling. The CAODC predicts 18,500 wells will be drilled in western Canada in 2001. Command will capitalize on this positive industry environment through the company's modern fleet, above average utilization rates and attention to customer service.

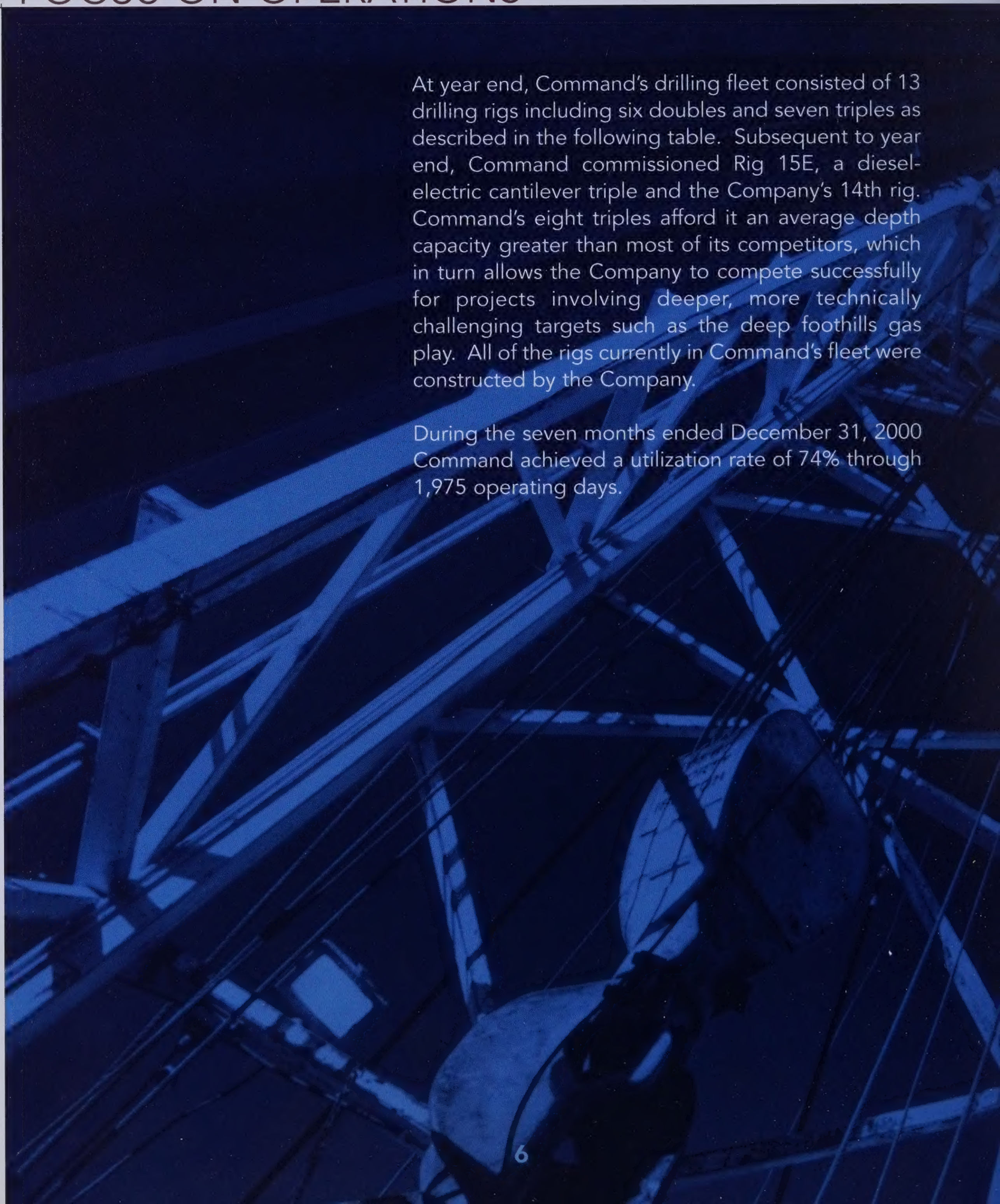
Command's growth strategy includes internal growth through construction of at least two additional rigs in 2001 and external growth through merger and acquisition opportunities primarily focusing on drilling and drilling-related services. The Company's capital budget for 2001 amounts to $20.3 million, of which $15.9 million is earmarked for the construction of two rigs. One of these new rigs will be the deepest rated rig to be built in Canada in the last 20 years. The diesel-electric cantilever triple will feature AC-drawworks, top drive and a depth capacity in excess of 6,000 metres.

ACKNOWLEDGEMENTS

I would like to express my appreciation to our employees for their continued efforts and commitment to our Company; to our management team for their continued focus on making Command the success that it is; to our Board of Directors for their continued guidance and leadership; to our shareholders for their support and to our customers for their continued patronage.

Robert S. Bruce, President and CEO

FOCUS ON OPERATIONS



At year end, Command's drilling fleet consisted of 13 drilling rigs including six doubles and seven triples as described in the following table. Subsequent to year end, Command commissioned Rig 15E, a diesel-electric cantilever triple and the Company's 14th rig. Command's eight triples afford it an average depth capacity greater than most of its competitors, which in turn allows the Company to compete successfully for projects involving deeper, more technically challenging targets such as the deep foothills gas play. All of the rigs currently in Command's fleet were constructed by the Company.

During the seven months ended December 31, 2000 Command achieved a utilization rate of 74% through 1,975 operating days.

COMMAND DRILLING FLEET

Robert Wagemakers, Vice President, Operations and Kevin Suffern, Contracts Manager

Rig	Year	Type	Depth	Drawworks	Pumps
1	1980	Telescopic Double	2,400m	TSM 6000	1 - OPI 700 HDL Triplex
2	1980	Telescopic Double	2,400m	TSM 6000	1 - TSM 500 Duplex
3	1983	Telescopic Double	2,400m	Ideco H30M	1 - OPI 700 HDL Triplex
4	1992	Cantilever Triple	3,000m	Superior 700	2 - OPI 700 HDL Triplex
5	1993	Cantilever Double	2,800m	TSM 8000	2 - OPI 700 HDL Triplex
6	1994	Cantilever Double	2,600m	TSM 6000	2 - OPI 700 HDL Triplex
7E	1995	Diesel-Electric Cantilever Triple	3,600m	Mid Continent U36-ME	2 - OPI 700 HDL Triplex
8E	1997	Diesel-Electric Cantilever Triple	4,000m	Mid Continent U36-ME	2 - OPI 1000 HDL Triplex
9E	1999	Diesel-Electric Cantilever Triple	4,000m	Mid Continent U36-ME	2 - OPI 1000 HDL Triplex
10	1997	Cantilever Triple	3,600m	Mid Continent U36-M	2 - OPI 1000 HDL Triplex
11	1998	Cantilever Double	2,600m	TSM 6000	1 - TSM 500 Duplex
12E	1999	Diesel-Electric Cantilever Triple	4,000m	Mid Continent U36-ME	2 - OPI 1000 HDL Triplex
14E	2000	Diesel-Electric Cantilever Triple	4,000m	Mid Continent U36-ME	2 - OPI 1000 HDL Triplex
15E	2001	Diesel-Electric Cantilever Triple	4,000m	Mid Continent U36-ME	2 - OPI 1000 HDL Triplex
16E	2001	Diesel-Electric Cantilever Triple	6,000m	Under Construction	3 – Continental Emsco FB 1600 Triplex

During the reporting period, Command constructed one new rig, 14E, a diesel-electric cantilever triple with a depth capacity of 4,000 metres, commissioned in September.

Subsequent to the year end, the Company completed 15E, identical to 14E and commissioned in February, 2001.

Currently, Command is building 16E, a diesel-electric cantilever triple with a depth rating in excess of 6,000 metres, making it the deepest rig to be constructed in Canada in the last 20 years. This rig will have several innovative features, including AC-powered drawworks, top drive, and a 30-foot substructure. The Company expects 16E to be operational in the fall of 2001.

Derek Lowe, Vice President, Drilling
and Dave Smith, Welding Foreman

RIG CONSTRUCTION

Learning from its experience as both a drilling contractor and a drilling rig constructor, Command has developed its own rig designs and construction methods. The rig construction process involves design engineering; purchase of raw materials such as sheet metal, pipe and beams as well as components such as pumps, drawworks, and computers; actual construction; painting; set up; and equipment installation. Finally, the rig is tested in Command's yard prior to being moved to the field. For a 4,000 metre rig, the entire process takes approximately four months from the time the materials are ordered until the rig is completed and ready to move to its first location.

Command has built all of its rigs, constructing approximately 90% of each rig, and contracting out any modifications to the derrick. Most rigs are built from scratch, but contain rebuilt components such as pumps and drawworks.

Command's rig construction and maintenance facilities are located in southeast Calgary and comprise a 4.5-acre mechanical and welding facility and a 4.5-acre painting and sandblasting facility. The yard employs 20 to 30 staff.

SAFETY

Command remains committed to safety and maintains a high level of safety standards. Our record speaks for itself.

Everyone employed by Command Drilling is responsible for maintaining and improving the safety program. Supervisors, Rig Managers and Drillers are responsible for identifying safety needs, communicating safety hazards, investigating hazardous conditions and accidents, providing training, and ensuring all equipment is properly maintained and meets government legislation and industry standards. Their role is supported by all employees because everyone is involved with identifying safety needs and developing safe work practices which contribute to employee morale and company pride.

The Canadian Association of Oilwell Drilling Contractors has recognized Command Drilling's commitment to safety through three awards:

- 1999 – Award of Excellence for the contractor with the best safety record in its class
- 1998 – President's Shield for the most improved safety record in its class
- 1997 – President's Shield for the most improved safety record in its class.

These awards illustrate the diligent efforts of our employees who are continually striving to better our safety program.

The Board of Directors of Command Drilling Corporation is responsible for the overall stewardship of the Corporation. Over the seven months during which the Corporation has been a publicly traded company, the Board has taken steps toward

- adoption of a strategic planning process
- identification of the principal risks of the Corporation's business
- implementation of appropriate systems to manage these risks
- succession planning, including appointing, training and monitoring senior management
- developing a communications policy
- ensuring integrity of the Corporation's internal control and management information systems.

The Board of Directors has delegated day-to-day operations of the Company to management. Management is in turn responsible for designing and implementing an effective system of internal controls, and for operating the Corporation in the best interests of the shareholders.

The Board of Directors comprises six members, of whom one, Robert S. Bruce as President and Chief Executive Officer, is a related director. The other members, including the Chairman of the Board, are unrelated directors as they are independent of management. The Board of Directors believes its size is appropriate and effective given the current size of the Corporation.

The Board of Directors has appointed the following committees:
The Audit Committee comprises Messrs. Fleming, Mitchell and Silye, all of whom are unrelated directors. The Audit Committee is responsible for overseeing management reporting and internal finance and operating controls. The Audit Committee also reviews and approves all financial statements on both a quarterly and annual basis.

The Compensation Committee comprises Messrs. Fleming, Mitchell and Silye, and has a principle mandate to provide evaluations and recommendations to the Board concerning management structure, compensation of key management personnel and to review management's compensation plan for the Company's managers and employees.

The Corporate Governance Committee comprises Messrs. Mitchell, Sharp and Hartwell, all of whom are independent directors. The Corporate Governance Committee is responsible for developing the Corporation's approach to corporate governance.

The Environmental, Health and Safety Committee, comprising Messrs. Bruce, Sharp and Hartwell, is responsible for developing policies which ensure the Corporation's operations and activities meet or exceed legislated environmental and occupational health and safety standards.

The Corporation has not implemented a formal Nominating Committee. However, the usual responsibilities of a nominating committee, including assessing the effectiveness of the Board, its committees and individual directors; appointing new members to the Board; and developing and implementing an orientation and education program for new members of the Board have been assumed by the Company's Corporate Governance Committee.

Douglas A. Cutts, Vice President, Finance and CFO

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the financial condition and results of operations should be read in conjunction with the consolidated financial statements and accompanying notes contained in the annual report.

OVERVIEW

Command Drilling Corporation became a public company on June 5, 2000 and operated in 2000 for the seven month period ending December 31. The following discussion and analysis therefore pertains to financial results for the seven months ended December 31, 2000. As this is the first year end reporting period for the Company there are no comparative figures available. The Company is on target to meet or exceed the forecast included in its Initial Public Offering prospectus.

Financial Summary

Revenue	$ 30,056,000
EBITDA	$ 11,125,000
Net Earnings	$ 6,336,000
per share – basic and diluted	$ 0.30
Funds from operations	$ 7,415,000
per share – basic and diluted	$ 0.35
Capital Expenditures	$ 10,585,000
Long-term Debt, net	$ 16,336,000
Shareholders' Equity	$ 40,657,000

REVENUES

The Company's revenue is derived from contract drilling services. The Company provides staff and equipment with its drilling rigs to oil and gas exploration and production companies to complete the drilling of oil and gas wells in western Canada. The Company's rigs operated a total of 1,975 days during the period and generated revenues of $30,056,000.

OPERATING EXPENSES

The Company's operating expenses relate to the costs of operating, staffing and maintaining its drilling rigs. These costs amounted to $16,799,000 for the period.

DEPRECIATION

The Company records depreciation on its drilling rigs on a straight-line basis over 15 years with a 20% residual value. Other capital assets have depreciation recorded at various declining balance rates. Depreciation for the period amounted to $3,633,000. The Company's capital assets attract depreciation amounts that are higher than industry average as its capital assets balances approximate fair market value as a result of the purchase method utilized in accounting for the acquisition of Command Drilling Inc. on June 2, 2000.

GENERAL AND ADMINISTRATION

General and Administrative expenses amounted to $2,132,000. This represents approximately 7% of revenues.

INTEREST

The Company's operating and term bank debt bear interest at floating rates. Interest expense totalled $985,000 for the period.

INCOME TAXES

The Company's capital assets have an income tax basis that is lower than its book basis and this results in significant current income tax expense. This also results in large future income tax balances. As a result of recent federal legislation, these future income tax balances were reduced, resulting in a credit to earnings for the period of $2,758,000 or $0.13 per share.

CAPITAL ASSETS

The Company expended $10,585,000 on additions to capital assets for the period. These costs related to the construction of two rigs, camps and automotive equipment, and were financed by a combination of cash flow and long-term debt.

LIQUIDITY AND CAPITAL RESOURCES

The Company has negotiated banking arrangements to allow for its day-to-day operations and to finance its 2001 rig construction projects. This bank financing is at floating rates. The Company's TSE share trading price is currently below the exercise price of its share purchase warrants. The Company will utilize the proceeds from exercise of these warrants, if received, to repay a portion of its long-term debt and finance construction of additional drilling rigs. The Company may finance a portion of its future growth through equity issues depending on market conditions.

The Company had a working capital deficiency of $1,891,000 at December 31, 2000 resulting from a combination of current maturities of long-term debt and a large balance of accounts payable and accrued liabilities relating to rig construction in progress at the end of the year. During these periods of rig construction, capital costs are incurred and are subsequently paid with advances on long term debt. As the debt facility is drawn down, the working capital position increases.

BUSINESS RISKS AND FUTURE OUTLOOK

The Company provides services to the oil and gas industry in western Canada. Demand for these services is dependent upon the level of expenditures by oil and gas companies on exploration and development activities. Exploration and development activities are affected by a number of factors including commodity prices, taxation and regulatory changes, changes in equity markets, and general economic conditions. The Company believes it is difficult to determine the potential impact of any of these factors with any degree of certainty and therefore to predict future activity levels. The Company therefore attempts to mitigate these factors through effective risk management strategies. As well, the Company's fleet of drilling rigs is modern and well-maintained.

The continuing demand for oil and natural gas is expected to support energy services activities over the next few years. In particular, the outlook for drilling services is very positive. In western Canada, deep drilling activity targeting large gas reservoirs along the foothills is increasing, and because of Command's deeper than average fleet drilling capacity, the Company is well positioned to benefit from this development.

The Company will continue its strategy of growth through both internal means and by seeking and acting upon appropriate acquisition opportunities.

Douglas A. Cutts, VP Finance and CFO
and Robert S. Bruce, President and CEO

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Command Drilling Corporation is responsible for the preparation and integrity of the accompanying consolidated financial statements and all other information contained in this annual report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include amounts that are based on management's informed judgements and estimates where necessary.

The Company maintains internal accounting control systems which are adequate to provide reasonable assurance that assets are safeguarded, transactions are executed in accordance with management's authorization and accounting records are reliable as a basis for the preparation of the consolidated financial statements.

The Board of Directors, through its Audit Committee, monitors management's financial and accounting policies and practices and the preparation of these financial statements. The Audit Committee meets periodically with the external auditors and management to review the work of each and the propriety of the discharge of their responsibilities.

Specifically, the Audit Committee reviews with management and the external auditors the financial statements and annual report of the Company prior to submission to the Board of Directors for final approval. The external auditors have full and free access to the Audit Committee to discuss auditing and financial reporting matters.

The shareholders have appointed KPMG LLP as the external auditors of the Company and, in that capacity, they have examined the financial statements for the period ended December 31, 2000.

Robert S. Bruce
President and
Chief Executive Officer

Douglas A. Cutts
Vice President, Finance and
Chief Financial Officer

AUDITORS' REPORT TO SHAREHOLDERS

We have audited the consolidated balance sheet of Command Drilling Corporation as at December 31, 2000 and the consolidated statements of earnings and retained earnings and cash flows for the seven months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and the results of its operations and its cash flows for the seven months then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
March 7, 2001

CONSOLIDATED BALANCE SHEET

As at December 31, 2000

ASSETS	
Current assets	
Accounts receivable	$ 13,556,000
Prepaid expenses and deposits	144,000
	13,700,000
Capital assets (note 4)	75,276,000
Deferred financing charges	372,000
	$ 89,348,000
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities	
Cheques issued in excess of cash on hand	$ 681,000
Revolving line of credit (note 5)	1,150,000
Accounts payable and accrued liabilities	6,383,000
Income taxes payable	2,399,000
Current portion of long-term debt (note 6)	4,978,000
	15,591,000
Long-term debt (note 6)	16,336,000
Future income taxes (note 7)	16,764,000
Shareholders' equity	
Share capital (note 8)	34,321,000
Retained earnings	6,336,000
	40,657,000
Commitments (note 9)	
	$ 89,348,000

See accompanying notes to consolidated financial statements.

Approved by the Board

Dennis A. Sharp

John J. Fleming

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

For the seven months ended December 31, 2000

Revenue	**$ 30,056,000**
Operating Expenses	
Operating Expenses	16,799,000
Depreciation of capital assets	3,633,000
	20,432,000
Earnings from drilling operations	9,624,000
Expenses	
General and administration	2,132,000
Interest	985,000
	3,117,000
Earnings before income taxes	**6,507,000**
Income taxes (note 7)	
Current	2,774,000
Future	(2,603,000)
	171,000
Net earnings, being retained earnings, end of period	**$ 6,336,000**
Earnings per share, basic and diluted (note 11)	**$ 0.30**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the seven months ended December 31, 2000

Operating activities	
Net earnings	**$ 6,336,000**
Items not involving cash	
Depreciation of capital assets	3,633,000
Future income taxes	(2,603,000)
Amortization of deferred financing charges	49,000
Cash flow from operations	**7,415,000**
Change in non-cash working capital	
Accounts receivable	(4,750,000)
Prepaid expenses and deposits	(130,000)
Accounts payable and accrued liabilities	(1,571,000)
Income taxes payable	2,324,000
	3,288,000
Financing activities	
Issuance of share capital, net of share issue costs	28,819,000
Advances of long-term debt	23,100,000
Repayment of long-term debt	(9,553,000)
Promissory note	(2,500,000)
Revolving line of credit	(225,000)
	39,641,000
Investing activities	
Acquisition of business	(33,268,000)
Purchase of capital assets	(10,585,000)
Other	664,000
Deferred financing charges	(421,000)
	(43,610,000)
Cheques issued in excess of cash on hand, end of period	$ (681,000)
Cash flow from operations per share, basic and diluted (note 11)	$ 0.35

See accompanying notes to consolidated financial statements.

For the seven months ended December 31, 2000

1. BASIS OF PRESENTATION:

The Company was incorporated as 861692 Alberta Ltd. on January 13, 2000 and changed its name to Command Drilling Corporation on April 27, 2000. The Company commenced operations on June 2, 2000 upon the acquisition of Command Drilling Inc. The Company was listed for trading on the Toronto Stock Exchange on June 5, 2000.

These financial statements reflect the results of operations and cash flows from the commencement of operations to December 31, 2000 and include the accounts of Command Drilling Inc., a wholly-owned subsidiary.

2. SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

(a) Revenue recognition:

Revenue from the supply of contract drilling services is recorded on a percentage of completion basis. If the Company estimates that it will incur costs beyond the contract value the anticipated future costs are provided for immediately.

(b) Capital assets:

Capital assets are recorded at cost. Depreciation is provided annually at rates calculated to write-off the assets over their useful lives as follows:

Assets	Rate
Drilling rigs	15 years straight-line with a 20% residual value
Camp equipment	30% declining-balance
Yard and spare equipment	20% declining-balance
Automotive equipment	30% declining-balance
Office and computer equipment	20% declining-balance

(c) Deferred financing charges:

Deferred finance charges are amortized on a straight-line basis over five years. Deferred finance charges are shown net of accumulated amortization of $49,000.

(d) Income taxes:

The Company utilizes the liability method of tax allocation to account for income taxes. Under this method future income tax assets and liabilities are determined based on the differences between the financial reporting and income tax bases of assets and liabilities and measured using substantially enacted income tax rates and laws that will be in effect when the differences are expected to reverse.

(e) Stock-based compensation plan:

The Company has a stock-based compensation plan, which is described in note 8(d). No compensation expense is recognized when stock or stock options are issued to employees under this plan. Consideration paid by employees on the exercise of stock options is credited to share capital.

(f) Per share amounts:

The Company has adopted the treasury stock method for calculating diluted per share amounts. Under this method deemed proceeds of the exercise of options are considered to be used to acquire common shares at an average share price.

3. BUSINESS ACQUISITION:

Effective June 2, 2000 the Company acquired all of the issued and outstanding shares of Command Drilling Inc. ("CDI") and the capital assets of Partner Rentals Ltd. ("Partners"). The acquisitions have been accounted for using the purchase method as follows:

	CDI	Partners	Total
Net assets acquired:			
Capital assets	$ 65,066,000	$ 3,921,000	$ 68,987,000
Non-cash working capital deficiency	(583,000)	-	(583,000)
Bank indebtedness	(202,000)	-	(202,000)
Long-term debt	(7,333,000)	(434,000)	(7,767,000)
Future income taxes	(20,795,000)	-	(20,795,000)
	$ 36,153,000	**$ 3,487,000**	**$ 39,640,000**

	CDI	Partners	Total
Consideration:			
Cash	$ 29,579,000	$ 3,487,000	$ 33,066,000
Promissory note	2,500,000	-	2,500,000
Common shares and warrants	4,074,000	-	4,074,000
	$ 36,153,000	**$ 3,487,000**	**$ 39,640,000**

4. CAPITAL ASSETS:

	Cost	Accumulated depreciation	Net book value
Drilling rigs	$ 67,793,000	$ 2,005,000	$ 65,788,000
Camp equipment	3,744,000	655,000	3,089,000
Yard and spare equipment	5,251,000	608,000	4,643,000
Automotive equipment	1,903,000	333,000	1,570,000
Office and computer equipment	219,000	33,000	186,000
	$ 78,910,000	**$ 3,634,000**	**$ 75,276,000**

Included in capital assets are costs totalling $3,337,000 relating to a drilling rig under construction at December 31, 2000. No depreciation of these costs has been provided in the period. The drilling rig under construction was completed during the first quarter of 2001.

5. REVOLVING LINE OF CREDIT:

The Company has a revolving line of credit in the amount of $10,000,000, with drawings bearing interest at prime plus 0.25%. Security for the line of credit and the reducing term loans are reflected in general security agreements covering all the Company's property plus specific security on certain capital assets.

Certain terms of the Company's banking agreement were renegotiated subsequent to December 31, 2000. These financial statements reflect the terms as renegotiated. This new agreement stipulates accelerated repayment terms in certain circumstances.

6. LONG-TERM DEBT:

Reducing term loan #1, repayable $1,025,000 quarterly, interest at bank prime rate plus 0.75%, security as described in note 5, maturing June 2005	$ 18,450,000
Reducing term loan #2, authorized amount $6,200,000, repayable $310,000 quarterly commencing September 2001, interest at bank prime rate plus 0.75%, security as described in note 5, maturing June 2002	2,600,000
Finance contracts, repayable $24,558 monthly principal and interest, interest rates of up to 2.5% , secured by specific automotive equipment	264,000
	$ 21,314,000
Less current portion	4,978,000
	$ 16,336,000

Scheduled repayments of long-term debt are as follows:

2001	$ 4,978,000
2002	6,086,000
2003	4,100,000
2004	4,100,000
2005	2,050,000
	$ 21,314,000

7. INCOME TAXES:

Income tax expense differs from the amount that would be computed by applying the basic combined Federal and Provincial statutory income tax rate of 44.62% to earnings before income taxes. The reasons for the difference are as follows:

Computed tax expense	$ 2,903,000
Change resulting from:	
Reduction in future rates	(2,758,000)
Non-deductible expenses	26,000
	$ 171,000

The components of the net future income tax liability at December 31, 2000 are as follows:

Future tax asset:	
Share issue costs	$ 1,160,000
Future tax liability:	
Capital assets	(17,924,000)
Net future income tax liability	$ (16,764,000)

8. SHARE CAPITAL:

(a) Authorized:
Unlimited number of common shares
Unlimited number of preferred shares

(b) Issued:

	Number of common shares	Number of share purchase warrants	Amount
On incorporation, for cash	100	–	$ –
Private placement, for cash	3,000,000	–	900,000
In exchange for shares of CDI	2,037,000	1,018,500	4,074,000
Public offering, for cash	15,525,000	7,762,500	31,050,000
On exercise of warrants	420,000	–	126,000
Less share issue costs (net of future income taxes of $1,428,000)			(1,829,000)
Balance, December 31, 2000	**20,982,100**	**8,781,000**	**$ 34,321,000**

Each warrant plus $2.50 cash entitles the holder to purchase one common share up to June 29, 2001.

Of the shares issued by private placement, 2,343,000 are subject to restriction on transfer up to June 2, 2001. An additional 637,000 are held in escrow releasable 50% on June 2, 2001 and 50% on December 2, 2001.

(c) Agents options:
In connection with the initial public offering the Company issued 1,552,500 options to acquire shares to the agents. Each option plus $2.00 cash entitles the holder to purchase one common share and one half of a common share purchase warrant up to December 2, 2001. The warrants are to have the same terms as those presently outstanding, per (b) above.

(d) Employee stock options:
The Company has reserved 2,056,210 common shares pursuant to a Stock Option Plan ("the Plan"). Options to purchase common shares of the Company under the Plan may be granted by the Board of Directors to directors, officers, employees and consultants of the Company. As at December 31, 2000 there were employee stock options outstanding to purchase 1,137,000 common shares at prices ranging from $0.30 to $1.95 per share, with expiry dates ranging from March 2005 to September 2005.

The following is a summary of the status of the Company's stock option plan at December 31, 2000 and changes during the period:

	Shares	Weighted average exercise price
Granted	1,837,000	$ 1.74
Terminated	(700,000)	0.30
Outstanding at end of period	1,137,000	$ 1.66
Exercisable at end of period	175,000	$ 0.30

The following summarizes information about stock options outstanding at December 31, 2000:

Exercise price	Number outstanding	Weighted average remaining contractual life	Number exercisable
$0.30	175,000	4.2	175,000
$1.68	140,000	4.8	-
$1.95	822,000	4.4	-
	1,137,000	**4.4**	**175,000**

9. COMMITMENTS:

Future minimum payments relating to operating leases are as follows:	
2001	$ 265,000
2002	$ 230,000
2003	$ 205,000
2004	$ 78,000
2005	$ 6,000

10. RELATED PARTY TRANSACTIONS:

For the purposes of the public offering of common shares, the Company (a) paid an agents fee of $768,000 and other fees totaling $244,000 plus reimbursement of expenses of $57,000 and (b) granted 776,250 agents' options to a company whose President is a Director of the Company.

11. PER SHARE AMOUNTS:

In computing diluted earnings and cash flow per share, 144,353 shares were added to the weighted average number of common shares outstanding during the seven months ended December 31, 2000 in respect of the dilutive effect of employee stock options. No adjustments were required to earnings or cash flow from operations in computing diluted per share amounts. The weighted average number of common shares outstanding during the period was 20,802,100.

12. MAJOR CUSTOMERS:

During the period, the Company derived $5,146,000 in revenue from one customer.

13. FINANCIAL INSTRUMENTS:

(a) Credit risk:
As a significant number of the Company's customers are well established and well financed oil and gas companies, the level of risk is considered to be minimal.

(b) Fair values:
The fair values of all current monetary assets and liabilities approximate their carrying values due to the relatively short periods to maturity of these instruments. The fair value of long-term debt approximates the carrying amount as it is at floating interest rates.

DIRECTORS

Robert S. Bruce
President and CEO
Command Drilling

John J. Fleming
President
Bonanza Energy Ltd.

James B. Hartwell
President and CEO
Emerging Equities Inc.

Douglas H. Mitchell, Q.C.
Co-chairman & Managing Partner
Borden Ladner Gervais LLP

Dennis A. Sharp
Chairman
Command Drilling
Chairman and CEO
UTS Energy Corporation

Jim Silye
President
Tyme Holdings Inc.

OFFICERS

Robert S. Bruce
President and CEO

Douglas A. Cutts
Vice President, Finance and CFO

Robert Wagemakers
Vice President, Operations

Derek Lowe
Vice President, Drilling

John C. Eadie
Secretary-Treasurer

Command Drilling Corporation
#350, 808 – 4th Avenue S.W.
Calgary, Alberta T2P 3E8
Phone: (403) 269-7244
Fax: (403) 269-2574
Email: info@commanddrilling.ab.ca
Website: www.commanddrilling.ab.ca

Bankers
Toronto Dominion Bank
Calgary, Alberta

Auditors
KPMG LLP, Chartered Accountants
Calgary, Alberta

Legal Counsel
Borden Ladner Gervais LLP
Calgary, Alberta

Transfer Agent and Registrar
CIBC Mellon Trust Company
Calgary, Alberta and Toronto, Ontario

Stock Exchange Listings
Toronto Stock Exchange
Common Shares – CDZ
Warrants – CDZ.WT

◆ NATIONAL DIAMOND PUBLIC RELATIONS LTD.

COMMAND DRILLING CORPORATION

COMMAND DRILLING CORPORATION
#350, 808 - 4th Avenue S.W.
Calgary, Alberta T2P 3E8

Phone: (403) 269-7244
Fax: (403) 269-2574

Email: info@commanddrilling.ab.ca
Website: www.commanddrilling.ab.ca